

Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 FRB-03

COME-00 PA-01 PRS-01 USIA-06 /072 W

----- 030328

R 140931Z FEB 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 8024

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SEOUL

AMEMBASSY STOCKHOLM

US MISSION EC BRUSSELS

US MISSION OECD PARIS

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: TOKYO FOREX MARKET DEVELOPMENTS - FEB 3-14

REF: TOKYO 1615

1. SUMMARY: DOLLAR WEAKENED DURING FIRST WEEK OF FEB
FOLLOWED BY EXCEPTIONALLY HEAVY DOWNWARD PRESSURE ON THE
DOLLAR DURING THIS PAST WEEK. FOREX MARKET OPENED WED,
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FEB 12, WITH ACTIVE TRADING WHICH DROVE DOLLAR DOWN 3.5

YEN DURING DAY AND REQUIRED ACTIVE BOJ INTERVENTION.
DOLLAR HAS SUBSEQUENTLY RECOVERED SOMEWHAT. END SUMMARY.

2. DOLLAR OPENED IN FEB SOMEWHAT STRONGER THAN IN LATE JAN BUT DRIFTED DOWNWARD DURING FIRST WEEK TO 296.40 ON FRI, FEB 7. DOLLAR DROPPED TO MEDIAN RATE OF 295.50 YEN PER DOLLAR ON MON, FEB 10, ON RELATIVELY HEAVY TRADING. WHEN MARKET NEXT REOPENED ON WED THERE WAS HEAVY TRADING IN MORNING CONTRARY TO USUAL PRACTICE. DOLLAR DROPPED ABRUPTLY AND REPRESENTATIVE RATE WAS 292.00 FOR DAY -- THE LOWEST SINCE MID-JULY 1974. TOTAL VOLUME ON WED AMOUNTED TO ALMOST \$180 MIL OF WHICH BOJ EVIDENTLY SUPPLIED ABOUT \$100 MIL. DOLLAR HAS RECOVERED SOMEWHAT DURING LAST TWO TRADING DAYS. FORWARD RATES HAVE MOVED ALONG WITH SPOT AND FORWARD DOLLAR REMAINS AT PREMIUM DESPITE BEAR RAID THIS WEEK.

3. ANALYSTS CITE DOLLAR DECLINE IN EUROPE AS FACTOR CAUSING SHARP BREAK IN TOKYO MARKET. FINATT IS UNABLE TO ATTRIBUTE ANY SPECIFIC ADVERSE NEWS FROM U.S. TO SHARP MARKET BREAK ON WED. MOST ANALYSTS DO REPORT IMPROVED B/P PROSPECTS FOR JAPAN, ALTHOUGH THEY DO NOT CITE PROSPECT OF ADDITIONAL \$2 BIL IN PETRODOLLARS REPORTED IN REFTEL. PRELIM REPORT ON FEB 10 OF DROP IN JAN IMPORTS (AS RECORDED ON LICENSED BASIS) MAY HAVE BEEN FACTOR IN REASSESSING JAPAN'S TRADE AND B/P POSITION, ALONG WITH PROSPECT FOR CONTINUING DEPRESSED ECONOMIC ACTIVITY IN JAPAN. RECENT HEAVY PURCHASES OF JAPANESE BONDS AND STOCKS BY FOREIGNERS HAS UNDOUBTEDLY CREATED ADDITIONAL DOLLAR SUPPLY. MARKET ANALYSTS AND BOJ OFFICIALS DO NOT CONSIDER CHANGES IN LEADS/LAGS AS CONTRIBUTING IN THIS WEEK'S FOREX PRESSURES.

4. INTEREST ARBITRAGE FLOWS INTO JAPANESE BONDS AND FOREIGN INVESTMENTS IN EQUITIES ARE CITED AS CONTRIBUTING TO THE YEN STRENGTH. IN CONTRAST TO NET SALES OF BONDS AND STOCKS BY FOREIGNERS OF \$98 MIL IN FOURTH QUARTER 74, THERE WERE NET PURCHASES OF \$70 MIL IN JAN AND AT A RATE OF \$200 MIL SO FAR IN FEB. YIELDS ON OUTSTANDING HIGH GRADE YEN BONDS OF 10 PERCENT ARE ATTRACTIVE COMPARED LIMITED OFFICIAL USE

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WITH 9 PERCENT FOR 2-YEAR AND 8 PERCENT FOR 1-YEAR EURO-DOLLAR MONEY. DEMAND IN COMING PRIMARILY FROM EUROPE AND IS BELIEVED TO INCLUDE INVESTMENTS BY SCANDIANAVIAN SHIP-OWNERS WHO ARE HEDGING THEIR YEN DEBTS. IT HAS NOT BEEN POSSIBLE TO OBTAIN ESTIMATES OF PURCHASES BY MIDEAST COUNTRIES SINCE THOSE INVESTMENTS ARE GENERALLY CHanneled THROUGH UK MERCHANT BANKS. FOREIGN DEMAND FOR JAPANESE EQUITIES IS ALSO MOSTLY FROM UK AND SWITZERLAND.

5. MOF AND BOJ ARE REPORTEDLY CONCERNED ABOUT SUDDEN STRENGTH OF YEN WHICH IS CONTRARY TO EXPECTATION. MOF HAD SOUGHT TO INCREASE FOREIGN CAPITAL INFLOWS THROUGH (A) AUTHORIZING OVERSEAS BOND ISSUES FOR "OUT-IN" FINANCING (TOKYO A-49, PARA B-5) AND (B) INCREASED AUTHORIZATION OF IMPACT LOANS TO \$500 MIL IN FIRST QUARTER FROM \$450 MIL IN FOURTH QUARTER. AS RESULT OF RECENT DOLLAR DELUGE AND YEN APPRECIATION MOF AND BOJ ARE NOW REPORTEDLY CONSIDERING WHETHER TO RESTRAIN CAPITAL INFLOWS BY REIMPOSING CONTROLS ON FREE-YEN ACCOUNTS AND FOREIGN PURCHASES OF JAPANESE SECURITIES. FINATT BELIEVES BOJ MAY HAVE WELCOMED OPPORTUNITY INTERVENE IN FOREX MARKETS TO PURCHASE DOLLARS SINCE THIS IS AN INCONSPICUOUS WAY TO EASE TIGHT MONEY AND IT AFFORDS OPPORTUNITY TO ADD TO OFFICIAL RESERVES.

6. FOLLOWING ARE DATA FOR SPOT AND FORWARD DOLLAR RATES AND VOLUMES DURING PAST TWO WEEKS:

	CENTRAL SPOT RATE (YEN/DOL)	FORWARD DOLLARS (PREMIA IN PCT P.A.) (MIL DOL)	SPOT VOL
		3-MO	6-MO
FEB 3	298.00 MINUS	0.20	0.13 67
4	297.00	0.13	0.24 74
5	297.15	0.47	0.30 68
6	297.10	0.47	0.34 64
7	296/40	0.61	0.54 83

WEEKLY FWD VOLUME WAS \$482 MIL AND SWAP VOLUME \$375 MIL

10	295.50 MINUS	1.56 MINUS	0.47 94
11	HOLIDAY		
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12			
12	292.000	3.08	0.96 179
13	293.80	0.95	0.95 79
14	293.30	1.09	0.61 88

WEEKLY FWD VOLUME WAS \$409 MIL AND SWAP VOLUME \$351 MIL

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Message Attributes

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Margaret P. Grafeld
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05 JUL 2006

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